



Issue Brief

State Aid to K-12 General Education Funding Formula

Department of Education and Cultural Affairs

Synopsis: *The amount of state aid funding provided to local school districts for general K-12 education is based on an equitable formula that starts with the same amount of funding per student. Small schools receive more money per student. The total amount of per-student funding for a school district is paid for by a combination of money raised by the school district through local property taxes and money raised by the state through statewide taxes. School districts also have many other sources of revenue for general education beyond state aid formula funding.*

Funding K-12 Education

In 1995, Gov. Janklow proposed and the Legislature adopted a new school aid formula for general K-12 education (state aid formula). The new state aid formula took effect on January 1, 1997.

Prior to the 1997 effective date, K-12 school aid was based on an expenditure-driven formula. Essentially, the more a school district spent, the more state aid it received. Therefore, there was no incentive for a district to keep spending in check.

The new state aid formula starts with the premise that money spent on education should be based on how much it takes to educate a student, not how much each district can spend.

Per-Student Allocation

The new state aid formula starts with the same amount of money for each student's education. It is called a per-student allocation.

The initial per-student allocation was set at \$3,350. The figure was based on financial and student enrollment data from the 1993-94 school year and adjusted for inflation. The per-student allocation took effect with the formula on January 1, 1997 (the last half of the 1996-97 school year).

The per-student allocation is adjusted annually. It increases at the same rate as inflation, which is calculated by the consumer price index. However, the per-student allocation cannot increase more than 3 percent in a year.

The following table shows the per-student allocation since the new formula took effect in 1997:

School Year	Per-student Allocation	Percent Increase
1996-97 (2 nd half)	\$3,350	
1997-98	\$3,440	2.7
1998-99	\$3,541	2.9
1999-00	\$3,605	1.8
2000-01	\$3,666	1.7

The per-student allocation is not a spending cap on how much money a school can spend per student for their education. The per-student allocation is the standard amount that can be raised through local property taxes and state aid.

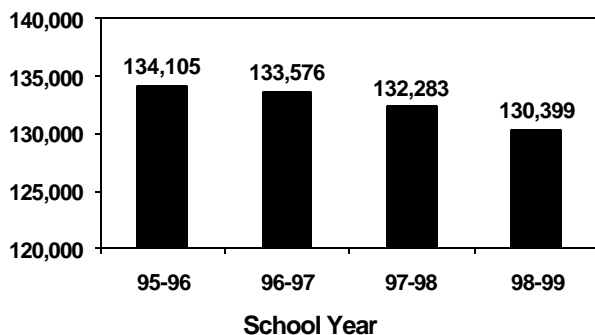
Calculating the Number of Students

The number of students in a school district is called Average Daily Membership (ADM).

ADM is essentially a school district's enrollment for the school year, and accounts for students entering and leaving the school district.

For example, if a student is enrolled in the district for the full school year, that student is counted as a 1.0 ADM. If the student is enrolled in the district for half of the school year and then moves to another district, that student is counted as a .5 ADM in both districts.

State Aid ADM



The Small School Factor

The state aid formula also recognizes that economy of scale causes smaller school districts to incur higher costs to educate a student.

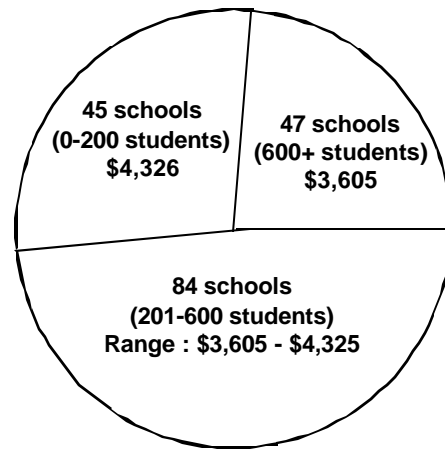
There are 176 school districts in South Dakota. To determine state aid funding, they are divided into the following size categories:

- 200 ADM or less,
- greater than 200 ADM but less than 600,
- 600 ADM or more.

Schools with 600 ADM or more are assigned the basic per-student allocation. For the current 1999-2000 school year, the per-student allocation is \$3,605.

Every school district in South Dakota with fewer than 600 ADM is assigned an increase to its per-student allocation known as the small school factor.

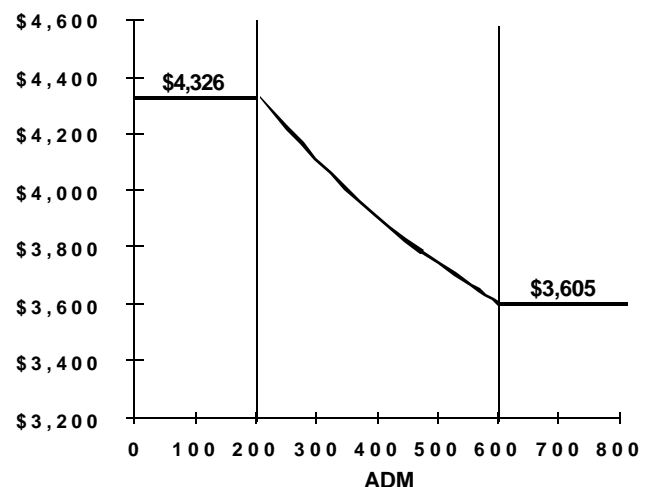
For the 1999-2000 school year, 129 school districts (72%) qualify for the small school factor and are assigned more than the basic per-student allocation.



The smallest school districts, those with 200 or fewer ADM, are assigned an increase of 20% more for their per-student allocation. For the 1999-2000 school year, the per-student allocation for school districts with 200 or fewer students is \$4,326.

School districts with more than 200 students but less than 600 students are assigned an increase to their per-student allocation on a sliding scale, ranging from the basic per-student allocation up to the 20% increase assigned to the smallest schools.

**Per-Student Allocation
1999-2000 School Year**



Local Need

Local need is the total amount of per-student allocation for each school district.

Local need is calculated by taking the school district's ADM and multiplying it by the per-student allocation.

A hypothetical large school district example:

$$\begin{array}{rcl} & 600 & \text{ADM} \\ \times & \$3,605 & \text{Per-Student Allocation} \\ \hline = & \$2,163,000 & \text{Local Need} \end{array}$$

A hypothetical small school district example:

$$\begin{array}{rcl} & 200 & \text{ADM} \\ \times & \$4,326 & \text{Per-Student Allocation} \\ & & \text{(with small school factor)} \\ \hline = & \$865,200 & \text{Local Need} \end{array}$$

Funding for Local Need

The money to pay for local need is raised through local and state taxes.

The taxes to pay the local need are divided between money raised through school district taxes, called "local effort" and money from the state's budget raised with state taxes, called "state aid."

Determining Local Effort

The state Department of Revenue calculates the value of a school district's taxable property, upon which local effort is raised through local property taxes.

The level of general education tax levy for school purposes is capped in law. School boards may "opt out" of the maximums if two-thirds of the board supports it. This decision is referable if 5 percent of the electorate signs a petition against the "opt out."

For the 1999-2000 school year, school districts may levy a maximum of:

- \$4.70 per thousand for agricultural property,
- \$7.56 per thousand for owner-occupied property, and
- \$16.15 per thousand for non-agricultural property.

The local effort is the amount of money raised by applying the maximum local property tax levies against the value of taxable property.

Determining State Aid

The amount of state aid provided to school districts is calculated by taking the total "local need" minus "local effort."

A hypothetical school district example:

$$\begin{array}{rcl} \$2,163,000 & \text{Local Need} \\ - & \$1,081,284 & \text{Local Effort} \\ \hline = & \$1,082,716 & \text{State Aid} \end{array}$$

State aid is not reduced if the school district does not levy the maximum.

How Property Tax Relief Affects the State Aid Formula

Gov. Janklow's property tax relief program works through the state aid formula.

State property tax relief money is put into the state aid formula to allow lower local property tax levies for school purposes.

The amount of property tax relief money provided through the school aid formula has risen from \$81.6 million per year to provide 20% relief, to \$102 million per year for 25% relief and now to \$122.4 million per year to provide 30% relief.

As property tax relief has risen, more money goes to state aid, and the amount of local effort paid as a proportion of local need has decreased.

School Year	State Share (state aid)	Local Share (local effort)
1996-97	45.2%	54.8%
1997-98	47.9%	52.1%
1998-99	48.9%	51.1%
1999-00	48.5%	51.5%
2000-01*	52.2%	47.8%

* estimated

State aid is now projected to pay for more than half of all local need at the same time property tax levies have decreased because of property tax relief.

School Year	State Fiscal Year	State Aid	Local Effort*
96-97	1997	\$207,107,213	\$253,676,877
97-98	1998	\$226,532,196	\$248,999,432
98-99	1999	\$235,854,850	\$248,779,442
99-00	2000	\$234,798,413	\$251,810,442
00-01	2001**	\$256,872,937	\$237,080,075

*Assumes all districts taxing at maximum levy.

**FY01 is budgeted. Other years are actual.

Schools Receive More Funds Than Local Effort and State Aid

The state aid formula is not the only source of revenue for South Dakota schools. It is only one of more than 60 sources of revenue that local schools can spend on educating students.

Some of those other revenue sources for general education are:

- federal grants,
- transportation reimbursements,
- rental income,
- investment income,
- fines, and
- many others.

Last year, these "extra" sources of general revenue for schools averaged \$1,008 per student statewide over and above the \$3,605 per student allocation.

Schools also have other specialized funds to pay for certain education projects, including.

- revenue collected from local taxpayers for capital outlay and bond redemption, over and above the \$3,605 per student allocation;

- federal, state, and local funds for special education, over and above the \$3,605 per student allocation that special education students also generate.

For More Information

Janelle Toman
Dept. of Education and Cultural Affairs
700 Governors Drive
Pierre, SD 57501
Phone: 605-773-3134